

Central Intelligence Agency

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DIRECTORATE OF INTELLIGENCE

15 January 1986

Japan-Cuba Economic Ties: Expanded Export Credit Boosts Trade**Summary**

As Cuba's largest non-Communist trading partner and an important source of machinery and technology, Japan is vital to Cuba's effort to maintain economic and political ties to the non-Communist world. We believe Tokyo will continue to pursue a two-track approach toward Havana, separating political and economic relations, to balance the US desire for cooperation in isolating Havana with internal Japanese pressure for unrestricted trade. Since commerce declined between Cuba and Japan in the early 1980s, when Havana faced a severe debt crisis caused by plummeting world sugar prices and poor harvests, bilateral trade has recovered because an improved Cuban payment record has made Japanese firms more willing to grant export financing. We believe Japanese exports to Cuba will increase as long as Japanese financiers judge that Havana's payment record is good. Two-way trade in 1985 could total over \$400 million. We also expect the trade balance to remain heavily in Japan's favor given Havana's inability to diversify its exports to compensate for its diminished sugar sales in Japan.

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This memorandum was prepared by Office of East Asian Analysis. Information available as of 15 January 1986 was used in its preparation. Comments and queries are welcome and may be directed to the Chief, Japan Branch, Northeast Asia Division, OEA, .

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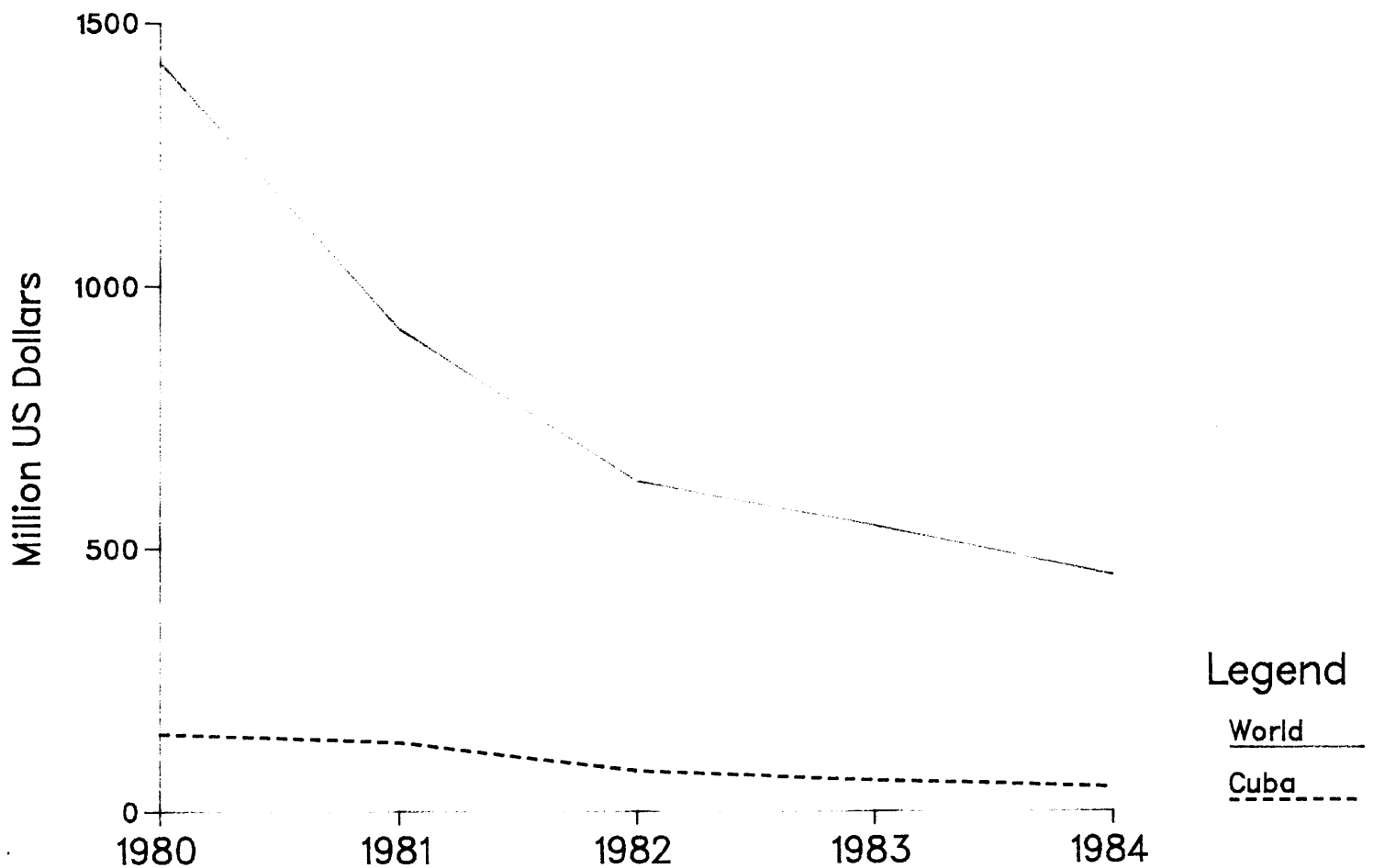
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Japan's Trade with Cuba (Million US Dollars)

	Exports	Imports	Total
1980	241	188	429
1981	267	154	421
1982	126	114	240
1983	105	92	197
1984	250	78	328



Japan: Import of Sugar 1980-84



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The State of Bilateral Trade

Havana maintained strong economic ties to Japan until the early 1980s, when the drastic decrease in Japanese sugar consumption and Cuba's debt crisis caused trade to slump sharply in 1982 and 1983. Japanese sugar imports dropped steeply in the 1980s because of the fall in Japanese sugar consumption. Widespread use of corn syrup and artificial sweeteners supplanted the Cuban product. Havana's subsequent improvement in its payment record and the successful rescheduling of its international debt caused Japanese traders to reevaluate Cuba and label Havana a good risk for export financing. The result was a rebound in bilateral trade in 1984 and 1985. []

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We believe liberalized export financing will push two-way trade between Japan and Cuba beyond \$400 million in 1985, a level that should approach the peak reached in 1980. According to Japanese government statistics, two-way trade totalled slightly over \$200 million for the first six months of 1985. We expect a slight increase during the second half of the year because of easier credit terms. []

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Nonetheless, Cuba's limited exports to Japan are likely to remain a drag on additional growth overall. []

[] Havana's attempts to diversify its exports to Japan--by pushing sales of seafood, rum, and coffee--have not yielded significant results. []

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Export Credit: The Key to Trade Volume

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The volume of Japan-Cuba trade is largely determined by whether Havana, which is perennially lacking hard currency, can obtain export credit on favorable terms to pay for its imports. The sharp drop in Japan's exports to Cuba in 1983 resulted from restrictions on easy credit because of Havana's debt crisis. Essentially, MITI refused to supply export credit insurance, causing Japanese exporters to become reluctant to assume the resulting risks. Caught in a bind, Havana also was unable to pay immediately for goods in hard currency. Cuba's better performance in meeting its obligations by 1984 led MITI to resume supplying short-term insurance on exports. This has helped push Japanese exports to Cuba over their 1983 levels, and also emboldened exporters, who also were responding to the lure of higher-than-average profits on sales to Cuba, to privately assume the risk on a larger share of their exports to Cuba in 1985. []

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According to the US Mission in Havana, Japanese firms have begun to allow Cuba two years to pay for goods, a decision that has already helped increase Japanese exports. The liberal credit policy toward Havana is consistent with the behavior of Japanese traders elsewhere in the Third World. The Japanese are aggressive marketers in Third World countries where they believe their relationship will remain stable, and we

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[REDACTED]

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expect them to continue to expand sales in Cuba as long as Havana maintains an acceptable payment record. [REDACTED]

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Although MITI only provides export credit insurance for six months on shipments to Cuba, the US Mission reports many exporters are assuming the risk for longer term financing themselves or arranging for private export insurance. [REDACTED]

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[REDACTED] In our view, the marketing advantage Japanese firms now enjoy will increase in 1986 as Havana begins to repay its rescheduled Western debt and is compelled increasingly to depend on easy credit terms for new purchases. [REDACTED]

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Computers: Havana's Quiet Acquisitions

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Despite its economic problems, Cuba has kept up a steady effort to acquire high-technology hardware in Japan, although such acquisitions have been limited to items--such as personal computers--not restricted by COCOM guidelines. Havana's computer purchases from Japan are relatively low in value, but they are the only purchases made in quantity and appear to have been the only area unaffected by financing considerations. Computer purchases to date have been cash transactions, and Havana would continue to give computer acquisition a high priority even if credit problems arise again. Official Japanese statistics set Japan's computer sales to Cuba at only \$2 million in 1984, up from under \$1 million in each of the previous two years, [REDACTED]

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[REDACTED]

[REDACTED]

The Political Dimension

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Tokyo walks a fine line in its dealings with Cuba, balancing US pressure to minimize ties with Havana against Japanese business and political interests that support unrestricted trade. The Japanese Government has responded to the conflicting

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[redacted]

influences by attempting to divorce economic from political relations. Tokyo has supported US policies aimed at isolating Cuba by strictly controlling its Cuban nickel imports, continuing to restrict long-term export insurance, and limiting--at least officially--technology exports. Havana's efforts to publicly defy the US embargo by dealing with Japan have resulted in little propaganda gain because of Tokyo's policy of maintaining political distance from Havana. [redacted]

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Despite officially keeping Havana at arm's length, however, Tokyo has not made a concerted attempt to restrict trade. Private firms have been given a de facto green light to liberalize export credit terms on the basis of Havana's payment record, a "laissez faire" policy that has allowed trade volumes to remain relatively unaffected by political developments. [redacted]

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Although many senior Japanese officials have advocated strictly limiting contacts with Cuba to avoid complicating relations with the United States, there is support for trade with Cuba in the business community and in the Diet. The Japan-Cuba Dietmen's Association has only 30 members, but includes both Japan Socialist Party members who support ties to Cuba for ideological reasons and members of the ruling Liberal Democratic Party whose campaign contributions come from firms engaged in Cuban trade, according to the US Embassy in Tokyo. Tokyo, moreover, has been reluctant to adopt too high a profile as an international supporter of US policy on Cuba, in part because of concern over domestic criticism that would accuse the Japanese Government of following the US lead too closely. This reluctance, in our view, gives pro-Cuba elements in the Diet the latitude to achieve their limited goal of maintaining their trade-related Cuban contacts. [redacted]

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Outlook

In our view, economic ties between Japan and Cuba will continue to be determined primarily by Japanese judgments of Cuba's creditworthiness. We expect two-way trade to continue at or slightly above its present level through at least the first half of 1986 because Japanese companies will probably continue to extend liberal credit on shipments to Cuba at least for the short term. Trade is unlikely to rise far beyond this level because of Havana's limited ability to pay for imports and its lack of success in diversifying exports to Japan.

If Havana defaults on its debts--which we believe is unlikely soon--Japanese businessmen are certain to tighten credit, causing a sharp drop in trade. But, we believe the Japanese view of Cuba as a reasonable credit risk will persist and keep trade on a solid footing. [redacted]

[redacted]

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